Report

of the

Examination of

Yorkville & Mt. Pleasant Mutual Insurance Company

Union Grove, Wisconsin

As of December 31, 2001

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott McCallum, *Governor*
Connie L. O'Connell, *Commissioner*

Wisconsin.gov

121 East Wilson Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

May 24, 2002

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2001, of the affairs and financial condition of

YORKVILLE and MT. PLEASANT MUTUAL INSURANCE COMPANY
UNION GROVE, WISCONSIN

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1997 as of December 31, 1996. The current examination covered the intervening time period ending December 31, 2001, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on June 17, 1874, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Yorkville & Mt. Pleasant Farmers Mutual Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were two amendments to the articles of incorporation and no amendments to the bylaws.In 1998 Article I was amended to reflect a change in address. Article III was amended in 1999 to change the number of board members from nine, to six to nine members divided into three classes of nearly equal size.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Kenosha, Milwaukee, Racine, and Walworth

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of one year with premiums payable on the advance basis. Policy fees charged policyholders are retained by the company.

During the period under examination, the company acquired business through two agents, one of whom is the director/secretary of the company. The secretary receives no special compensation for writing and renewing policies because acting as company agent is among those responsibilities for which she is paid a salary. Their one independent agent retired as of June 1, 2001. The company has no other agents at this time. The secretary performs an initial assessment of all claims, and if warranted, requests an outside adjuster to evaluate the loss. All claims with an estimated settlement value of over $5,000 are reviewed by the adjusting committee. All directors' claims under $1000 are adjusted by the secretary. Directors' claims over $1000 are adjusted by two directors other than the claimant. The secretary receives no special compensation for adjusting because this responsibility is among those for which she is paid a salary. One other director also adjusts claims and is paid $70 for each loss adjusted regardless of the number of site visits or mileage required. Complex claims are forwarded to an outside adjusting service.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors may consist of six to nine members. The current board of directors consists of eight members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Donald Lee	Retired	Sturtevant	2003
Thomas Whitley	Farmer	Union Grove	2003
Kenneth Peterson	Farmer	Racine	2003
*Lisa Johnson	Ins. Agent/Manager	Sturtevant	2004
Chester Davis	Retired	Union Grove	2004
Richard Isaacson	Retired	Sturtevant	2004
Ivan Henderson	Retired	Sturtevant	2005
Linton Skewes	Farmer	Union Grove	2005

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $70 for each meeting attended and $.345 per mile for travel expenses. In addition, board members, with the exception of the president, secretary, and treasurer, receive a base pay of $200 annually.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	2001 Salary
Donald Lee	President	$ 1000
Chester Davis	Vice President	$0
Lisa Johnson	Secretary	$18,000
Thomas Whitley	Treasurer	$ 7,768

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

Adjusting Committee

Donald Lee
Lisa Johnson
Thomas Whitley
Chester Davis

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1997	$108,836	$58,715	475	$44,589	$1,184,321	$1,076,483
1998	95,595	118,619	469	(35,080)	1,174,304	1,057,463
1999	103,715	14,427	458	80,557	1,236,100	1,131,627
2000	105,224	37,544	448	37,550	1,296,108	1,187,478
2001	123,466	74,086	459	48,182	1,334,140	1,227,253

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Writings Ratios Net
1997	$216,379	$110,677	$1,076,483	20%	10%
1998	216,713	95,605	1,057,463	20	9
1999	215,655	102,188	1,131,627	19	9
2000	212,791	104,151	1,187,478	18	9
2001	223,877	103,971	1,227,253	18	8

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1997	$58,715	$72,188	$108,836	54%	65%	119%
1998	118,619	64,974	95,595	124	68	192
1999	14,427	69,272	103,715	14	68	82
2000	37,544	57,293	105,224	36	55	91
2001	74,086	61,132	123,466	60	59	119

The company has experienced a slight increase in premium volume while the actual number of policies written has remained relatively stable. Although the company is writing fewer policies, there is a larger coverage and premium per policy. The company has also consolidated policies.

The above information also shows that the company has generally experienced steady growth in policyholder surplus and generally reports net income from operations. Although the company's loss ratio has remained relatively low, the expense ratio has been rather high due to the company's fixed expenses and relatively low premium volume.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retention of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1,2002
Termination provisions:	Either the Company or the Reinsurer may terminate this Contract of Reinsurance and/or any of the attached exhibits as of 12:01AM Central Standard Time, January 1,2003, or any subsequent January 1, by giving to the other party at least 90 days advance notice in writing.

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Liability (nonproperty)
	Lines reinsured:	All liability (nonproperty) business written by the company
	Company's retention:	None
	Coverage:	100% of each and every loss occurring on the business covered by this contract, including loss adjustment expenses. Coverage is subject to maximum policy limits of $1,000,000 per occurrence, in any combination of bodily injury and property damage liability; $5,000 for medical payments, per person, $25,000 per accident.
	Reinsurance premium:	100% of Reinsurance Rates
	Ceding commission:	15%
2.	Type of contract:	Class B First Surplus Reinsurance
	Lines reinsured:	All property business written by the company
	Company's retention:	$300,000 per ceded risk, including loss adjustment expenses, when the risk is more than 300,000; 50% on a pro rata basis per ceded risk when the company's net retention is $300,000 or less in respect to a risk. In any case the company shall retain an annual aggregate deductible equal to 10% of the loss and loss adjustment expenses otherwise recoverable.
	Coverage:	Up to $800,000 on a pro rata basis when the company's net retention is $300,000 or more in respect to a risk. When the company's net retention is $300,000 or less in respect to a risk, the company may cede on a pro rata basis up to 50% of such risk.
	Reinsurance Premium:	The pro rata portion of all premiums, fees, and assessments charged by the company corresponding to the amount of each risk ceded hereunder
	Ceding Commission:	15% to 35%, depending on loss experience

3.	Type of contract:	Class C-1 Excess of Loss - First Layer (Formula Rated)
	Lines reinsured:	All property business written by the company
	Company's retention:	$25,000 per occurrence $25,000 annual aggregate deductible
	Coverage:	100% of any loss, excluding loss adjustment expense, in excess of $25,000, subject to a limit of liability to the reinsurer of $75,000
	Reinsurance Premium:	Minimum rate: 6% of current net premiums written Maximum rate: 18% of current net premiums written Premium deposit: $7,500
4.	Type of contract:	Class C-2 Excess of Loss - Second Layer (Flat rated)
	Lines reinsured:	All property business written by the company
	Company's retention:	$100,000
	Coverage:	100% of any loss , excluding loss adjustment expense, in excess of $100,000, subject to a limit of liability to the reinsurer of $200,000
	Reinsurance premium:	7% of the company's current net premiums written in respect to the business covered Premium deposit: $8,700
5.	Type of contract:	Class D/E Stop Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company's Retention:	Annual aggregate net losses equal to 100% of the company's net premiums written, subject to minimum of $98,400
	Coverage:	100% of the amount, if any, by which the aggregate of the company's losses (excluding loss adjustment expenses) during the period this contract is in effect exceed the retention
Reinsurance premium:		Current rate based on a formula calculation which takes into account the losses incurred by the reinsurer under this contract for the last eight years Minimum rate: 7% of the current net written premiums Maximum rate: 25% of the current net written premiums Premium deposit: $8,700

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2001. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Yorkville & Mt. Pleasant Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2001

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in Company's Office	$ 25	$	$	$ 25
Cash Deposited in Checking Account	12,026			12,026
Cash Deposited at Interest	996,918			996,918
Stocks or Mutual Fund Investments (at Market)	288,443			288,443
Premiums, Agents' Balances, and Installments Booked but Deferred and Not Yet Due		19,962		19,962
Investment Income Due or Accrued		10,537		10,537
Reinsurance Premium Recoverable		1,266		1,266
Other Assets: Reinsurance Contingent Commission Recoverable		4,963		4,963
Furniture and Fixtures	517		517	
TOTALS	$1,297,929	$36,728	$517	$ 1,334,140

Liabilities and Surplus

Net Unpaid Losses	$ 27,600
Unpaid Loss Adjustment Expenses	244
Fire Department Dues Payable	185
Unearned Premiums	64,323
Reinsurance Payable	9,268
Payroll Taxes Payable	85
Nonexpense Related	
Premiums Received in Advance	5,182
TOTAL LIABILITIES	106,887
Policyholders' Surplus	1,227,253
TOTAL	$1,334,140

Yorkville & Mt. Pleasant Mutual Insurance Company
Statement of Operations
For the Year 2001

Net Premiums and Assessments Earned	$123,466
Deduct:	
Net Losses Incurred	58,361
Net Loss Adjustment Expenses Incurred	15,725
Other Underwriting Expenses Incurred	61,132
Total Losses and Expenses Incurred	135,218
Net Underwriting Gain (Loss)	(11,752)
Net Investment Income:	
Net Investment Income Earned	59,722
Total Investment Income	59,722
Other Income:	
Miscellaneous Income	
Installment Fees	212
Total Other Income	212
Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes	48,182
Net Income (Loss) Before Federal Income Taxes	48,182
Net Income (Loss)	$ 48,182

Yorkville & Mt. Pleasant Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five Year Period Ending December 31, 2001

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	1997	1998	1999	2000	2001
Surplus, beginning of year	$1,040,637	$1,076,483	$1,057,463	$1,131,627	$1,187,478
Net income	44,589	(35,080)	80,557	37,550	48,182
Net unrealized capital gains or (losses)	(6,327)	14,086	(7,211)	9,746	(14,266)
Change in non-admitted assets	(427)	1,780	868	627	93
Other gains and (losses) in surplus:					
Unlocated difference	(1,989)	194	(50)	7,928	5,766
Surplus, end of year	$1,076,483	$1,057,463	$1,131,627	$1,187,478	$1,227,253

Reconciliation of Policyholders' Surplus

A reconciliation of the policyholders' surplus as reported by the company in its filed annual statement and as determined by the examination is detailed in the following schedule:

Policyholders' Surplus per December 31, 2001, Annual Statement			$1,227,253
Item	**Increase**	**Decrease**	
Stocks and Mutual Fund Investments	$ 0	$ 5,076	
Losses		$ 9,520	
Loss Adjustment Expenses		$ 1,341	
Deferred Premium		$ 8,613	
Total	$ 0	$24,550	
Decrease to Surplus per Examination			$ 24,550
Policyholders' Surplus per Examination			$1,202,703

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Page 2 - Articles and Bylaws—It is recommended that the company comply with the requirements of s. 612.04, Wis. Stat., that no changes in the articles be effective until approved by the commissioner.

   Action—Compliance

2. Page 2 - Articles and Bylaws—It is recommended that the company comply with s. 612.12(1)(b), Wis. Stat., as regards voting rights of members.

   Action—Compliance

3. Page 9 - Reinsurance—It is recommended that the company amend the terms of its reinsurance contract to accurately reflect the company's practices regarding reinsurance.

   Action—Compliance

4. Page 21 - Disaster Recovery—It is recommended that the company develop a disaster recovery plan.

   Action—Compliance

5. Page 23 - Cash and Invested Cash—It is recommended that the company comply with the requirements of s. Ins 13.05 (4) (d), Wis. Adm. Code that the balance appearing on the bank statement shall be reconciled with the cash balance appearing on the company's records at the end of the month.

   Action—Compliance

6. Page 23 - Cash and Invested Cash—It is recommended that the company comply with the requirements of s. Ins 13.05 (4) (a), Wis. Adm. Code, that all cash receipts shall be deposited at least weekly.

   Action—Compliance

7. Page 25 - Electronic Data Processing Equipment—It is recommended that the company properly classify EDP equipment as an admitted asset on the annual statement.

   Action—Compliance

8. Page 27 - Net Unpaid Losses—It is recommended that the company complete Schedule J-1 in accordance with annual statement requirements.

   Action—Compliance

9. Page 28 - Unearned Premium—It is recommended that the company comply with requirements of s. Ins 13.08 (3), Wis. Adm. Code regarding minimum unearned premium reserves.

   Action—Compliance

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

Biographical data relating to company officers and directors has been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity Bond	$ 100,000
Worker's Compensation:	Statutory
Bodily Injury by Accident	100,000 each accident
Bodily Injury by Disease	500,000 policy limit
Bodily Injury by Disease	100,000 each employee
Commercial General Liability:	
Aggregate Limit	1,000,000
Medical Expense Limit	5,000 on any one person
Limit Per Occurrence	1,000,000
Damage to Premises Rented	100,000 any one premise
Commercial Auto Liability	1,000,000 each accident
Business Personal Property	15,000
Valuable Papers and Records:	
Premises 1- Home Office	16,000
Premises 2 - Secretary's Home	2,000

Premises 3 - Treasurer's Home	2,000
Professional Liability	
Company Professional Liability	1,000,000 per claim and aggregate
Directors and Officers Liability	1,000,000 per claim and aggregate
All Coverages	1,000,000 aggregate

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing. The company uses an underwriting questionnaire and home cost estimating form to determine the rating classification.

The company has a formal inspection procedure for both new and renewal business. All new applications and a sampling of renewal business is inspected by committee members independent of the risk under consideration and review.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

Although the company maintains a general ledger, not all accounts examined were traceable to the general ledger. It was determined during the examination that the company was not reporting all of its assets and liabilities in the general ledger. Accounts not ledgerized included stock and mutual fund investments, certificates of deposit, and unearned and advance premium. It is recommended that the company comply with s. Ins 13.05(3)(e), Wis. Adm. Code, in regards to the inclusion of accounts and transactions in its general ledger.

During the exam it was also determined that the company was not keeping its signature stamp in a secure location. It is recommended that the company keep the signature stamp locked in a secure location.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2001.

The company is not audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. The company does not use computers to process its data. The company keeps all of its records manually, and the computer is used only for backup purposes. The company is presently negotiating with Wisconsin Reinsurance Corporation for a reduction in price for use of its software applications, given their low premium volume.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The company's disaster recovery plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

Access to the company's safety deposit box requires only the presence and signature of the secretary. However, a review of the contents of the company's safety deposit box revealed only certificates of deposit and stock issues that were issued in the company's name and deemed not to be negotiable. Therefore, the presence and signature of only one officer, or director or employee of the company was deemed adequate.

Investment Rule Compliance

The investment rule for town mutuals allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$406,887
2.	Liabilities plus 33% of gross premiums written	180,770
3.	Liabilities plus 50% of net premiums written	158,872
4.	Amount required (greater of 1, 2, or 3)	406,887
5.	Amount of Type 1 investments as of 12/31/2001	965,000
6.	Excess or (deficiency)	558,113

The company has sufficient Type 1 investments.

In the annual statement, the company stated that they had a written investment plan. However, during the examination it was determined that the company does not have a written investment plan. It is recommended that the company form a written investment plan and that the Board adopt it pursuant to s. Ins 6.20 (6)(h)(1), Wis. Adm. Code.

ASSETS

Cash and Invested Cash **$1,008,969**

The above asset is comprised of the following types of cash items:

Cash in company's office	$ 25
Cash deposited in banks-checking accounts	12,026
Cash deposited in banks at interest	996,918
Total	$1,008,969

Cash in the company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end. Cash deposited in banks subject to the company's check and withdrawal consists of one account. Verification of checking account balance was made by obtaining confirmations directly from the depositor and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of eleven deposits in ten depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2001 totaled $62,301 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 3.45% to 7.09%. Accrued interest on cash deposits totaled $10,537 at year-end.

Stocks and Mutual Fund Investments **$283,367**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2001. Stocks owned by the company are located in the company's safety deposit box.

Stock certificates were physically examined by the examiners. The company listed NAMIC as one of their common stocks. During the exam, it was determined that the company did not purchase stock in NAMIC in 1987, but rather chose to pay the assessment of $1,500. As a result, the aggregate value of stocks is reduced by $5,076, the reported value of the NAMIC stock as of 12/31//01. The company's balance of $288,443 is reduced to $283,367. It was also noted that four of the company's mutual funds have less than the required four star rating per s. Ins 6.20(6)(d)(5), Wis. Adm. Code. Three of these funds have been held with less than a four star rating for more than three consecutive years. Per s. Ins 6.20(6)(g), Wis. Adm. Code, a town mutual insurer shall divest any investment which does not meet the rating requirements noted above within three years of its noncompliance. It is recommended that the company dispose of funds not in compliance with s. Ins 6.20(6)(g), Wis. Adm. Code, within ninety days of the adoption of this report. Other than noted above, the company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2001 on stocks and mutual funds amounted to $13,751 and were traced to cash receipts records.

Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due **$11,355**

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. The company calculates deferred premium by adding the modal premium for all its semi-annual policies. During the review of deferred premiums, it was noted that the company included $8,613 in premium for policies with an inception date before 7/1/2001, for which the premium would have been collected or in course of collection. These policies would have no deferred installments as of 12/31/01. This asset was decreased through adjustment from $19,962 to $11,355. It is recommended that the company include only the semi-annual premium for policies with the inception date after 7/1, for which the second installment has not been collected before year-end, in deferred premium.

Investment Income Due and Accrued **$10,537**

Interest due and accrued on the various assets of the company at December 31, 2001, consists of the following:

Accrued interest on certificates of deposit	$10,537
	$10,537

The examiner verified this amount by recalculating and tracing amounts to subsequent receipts.

Reinsurance Premium Recoverable **$1,266**

The above asset represents recoveries due the company for the adjusted amount of reinsurance premiums. This amount is determined by calculating the annual premium due the reinsurer net of deposit premiums paid. Supporting records and subsequent cash receipts verified this item.

Reinsurance Contingent Commission Receivable **$4,963**

This asset consists of additional reinsurance commission due the company on the Class B-First Surplus contract. The amount is determined based on the loss experience of the company. Supporting records and subsequent cash receipts verified this item.

Equipment, Furniture, and Supplies **$0**

This asset consists of $517 of furniture and fixtures owned by the company at December 31, 2001. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$37,120**

This liability represents losses incurred on or prior to December 31, 2001, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. Differences are reflected in the section of this report captioned "Reconciliation of Policyholders' Surplus."

	Company Estimate	Examiners' Development	Difference
Incurred But Unpaid Losses	$61,450	$70,970	$9,520
Less:			
Reinsurance Recoverable on Unpaid Losses	33,850	33,850	
Net Unpaid Losses	$27,600	$37,120	$9,520

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2001. To the actual paid loss figures was added an estimated amount for those 2001 and prior losses remaining unpaid at the examination date, if any. Reserves for property and nonproperty losses that were known at year-end appear to be sufficient. Reserves for losses payable-IBNR (incurred but not reported) were deficient by $10,565. The company established a small reserve for IBNR property losses, but did not establish a reserve for IBNR nonproperty losses at year-end. The loss registers for the four prior years were examined addition to 2001, and no losses reported subsequent to year end were noted in the prior four years. Based on the information available to the company related to prior years IBNR, the company's estimate for year-end 2001 IBNR appears reasonable, therefore no recommendation will be made. However, this liability will be increased through adjustment from $27,600 to $37,120.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$1,585**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2001, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is estimation based on analysis of unpaid losses at year-end. As no IBNR was reported in prior years, the estimation of unpaid loss adjustment expense was based on known unpaid losses which had already been adjusted.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be inadequately stated. The examiner included estimated loss adjustment expenses on the incurred but not reported losses in the analysis of expenses, and determined the unpaid loss adjustment expenses to be deficient. The examiners have increased this liability through adjustment from $244 to $1,585.

Fire Department Dues Payable **$185**

This liability represents the fire department dues payable at December 31, 2001.

The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Unearned Premiums **$64,323**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using 50% of gross premiums in force, with adjustments for reinsurance activity. The examiners found this liability to be reasonably stated.

Reinsurance Payable **$9,268**

This liability consists of amounts due to the company's reinsurer at December 31, 2001, relating to transactions which occurred on or prior to that date.

Class A Liability Premium	$3,900
Class A Liability Commission	585 Credit
Class C-1 Premium	700
Class C-2 Premium	800
Class D/E Premium	750
First Surplus Premium	4,356
First Surplus Commission	653 Credit
Total Due	$9,268

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Amounts Withheld for the Account of Others **$0**

This liability represents employee payroll deductions in the possession of the company at December 31,2001. It was determined during the examination that the company did not report a liability for the employee's portion of withheld FICA, and Federal and State withholding taxes. It is recommended that the company report a liability for the withheld employee portions of FICA, federal withholding tax, and state withholding tax per Town Mutual Annual Statement Instructions.

Payroll Taxes Payable **$85**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2001, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$0**

The balance of this account consists of a liability for miscellaneous expense items including payroll. It was determined during the examination, that the company was not accruing for employee wages. It is recommended that the company accrue for employee wages per Town Mutual Annual Statement Instructions.

Premiums Paid in Advance $5,182

This liability represents premiums received for policies with effective dates in the subsequent year. An examination of this account found this liability to be reasonably stated.

V. CONCLUSION

Yorkville and Mt. Pleasant Mutual Insurance Company is a town mutual insurer with an authorized territory of four counties. The company has been in business for 127 years providing property and liability insurance to its policyholders.

Since the prior examination on December 31, 1996 the company's assets have increased 17.3% to $1,334,140. Liabilities have increased only 10.6% to $106,887. Surplus has increased 17.9% to $1,227,253. The company had net income and increases to surplus in four out of the last five years.

This examination resulted in seven recommendations. The recommendations are listed in summary form on the following page.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 - Accounts and Records—It is recommended that the company comply with s. Ins 13.05(3)(e), Wis Adm Code, in regards to the inclusion of accounts and transactions in the general ledger.

2. Page 16 - Cash and Invested Cash—It is recommended that the company keep the signature stamp locked in a secure location.

3. Page 18 - Investment Rule Compliance—It is recommended that the company form a written investment plan and that the Board adopt it pursuant to s. Ins 6.20 (6)(h)(1), Wis. Adm. Code.

4. Page 19 - Stocks and Mutual Funds Investments—It is recommended that the company dispose of funds not in compliance with s. Ins 6.20(6)(g), Wis. Adm. Code, within ninety days of the adoption of this report.

5. Page 20 - Premiums, Agents Balances and Installments Booked But Deferred and Not Yet Due—It is recommended that the company include only the semi-annual premium for policies with the inception date after 7/1, for which the second installment has not been collected before year-end, in deferred premium.

6. Page 23 - Amounts Withheld for the Account of Others—It is recommended that the company report a liability for the withheld employee portions of FICA, federal withholding tax, and state withholding tax per Town Mutual Annual Statement Instructions.

7. Page 23 - Accounts Payable—It is recommended that the company accrue for the employee wages per Town Mutual Annual Statement Instructions.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Lori Cretney of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Jean Suchomel
Examiner-in-Charge